

NOTE 16 – INCOME TAX REFUNDS AND TAX EXPENDITURES

A. Income Tax Credits

The Michigan Income Tax Act provides for several types of tax credits. Some credits are accounted for as revenue reductions for financial reporting purposes while others are reported as expenditures. Revenue reductions are reported for those income tax credits that are limited by the amount of an individual's tax liability before considering such credits. To the extent these nonrefundable credits will generate future year payments, they are accrued as income tax refund liabilities together with estimated overwithholdings.

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax, home heating, and senior citizens' prescription drugs credits are the primary credits that fall into this category. Expenditures for these credits are recognized in the year the tax returns are filed and recipients claim the credits.

The following table summarizes the various credits, reported as an expense/expenditure on the "Tax credits" line in the government-wide and fund financial statements (in millions).

Property tax credits:	
General homestead	\$ 255.9
Senior citizens	220.4
Farmland preservation	18.9
Other property tax credits	21.0
Subtotal – property tax credits	<u>516.2</u>
Home heating (excluding federal share)	1.8
Senior citizens' prescription drugs	14.8
Total tax expenditures	<u>\$ 532.8</u>

B. Income Tax Refunds Payable

The \$618.0 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.